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What to buy if you're opening your first Isa as a novice investor

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Taking out a stocks and shares Isa for the first time can be daunting. There are so many things to consider, from which fund shop you should choose to the investments you should make.

The most important thing to consider is what you want to buy. For first-time investors, buying shares of individual companies is likely to result in disaster as these tend to be riskier and require much more experience.

Instead, put your cash in fund that you think can make money in the long term. Whether this is done by choosing an “active” manager (a human) or a “passive” fund, which tracks a market, there are lots of options for novice investors.

Here are some ideas for those who have never invested before.

Passive funds

The first port of call for a new investor should be a passive fund. This way of investing looks to track a particular stock market. Keeping costs low is key when buying a passive fund as it means more of your money is being invested.

For those that want to invest solely in the global stock market, one of the cheapest options is the Legal & General International Index Trust. The fund costs 0.08pc per year and gives a broad exposure to a number of areas, although the bulk will be invested in America.

However, investing solely in stocks is risky and you can lose money in the short term if the market falls. Those who want to take less risk, could also hold government bonds as these tend to rise when markets fall.

Vanguard LifeStrategy is one of the most popular options for this kind of fund. It gives investors a sliding scale of stocks and bonds. Vanguard LifeStrategy 60pc, for example, holds this proportion in shares and the rest in bonds.

Vanguard, the American asset management company, is known for keeping its costs low and with a charge of 0.22pc, these are good value compared to active funds.

Other alternatives can be found in our passive 10 – our best selection of low-cost funds.

Active funds

Most active fund managers fail to beat the market, making it statistically better to buy a passive fund. But those that do can make a material difference to your cash.

For those that want to try and beat the stock market, the next two sections – funds and investment trusts – give some picks.

Those looking to invest in global stocks should consider the £18.6bn Fundsmith Equity fund, which is consistently popular with other investors. Terry Smith, the fund manager, buys well-known companies that he believes will continue to grow.

With a charge of 0.95pc, the fund is quite expensive. However, it has made investors double the returns of the global stock market over the past five years.

For those wanting to invest in British companies, the £6.6bn Lindsell Train UK Equity, managed by Nick Train invests in a similar way. He owns companies that have a competitive edge that cannot be replicated such as a trusted brand or unique technology.

The fund has almost quadrupled investors' money over the past decade while the market would have only doubled it.

People who have a more cautious view, or cannot tie their money up for a long time, should look for funds that buy both bonds and stocks.

Known as "multi-asset", they work in the same way as the Vanguard fund above, but may also buy other things such as gold or property. Artemis and Premier Miton Asset Management both have funds that are consistently near the top among their peers. They have a range of funds that take more or less risk depending on your outlook. For more fund ideas, we have our Telegraph 25.

Investment trusts

If older members of your family have been invested for some time, they may suggest you buy an investment trust. These are similar to funds but work as independent companies with their own board of directors holding the fund manager to account.

Unlike funds, where you can just put your money in, you have to buy shares in an investment trust from another investor.

Our preferred trust investing in Britain is City of London. Managed by Job Curtis, the £1.8bn trust has increased its dividend – the amount it pays back to investors as income each year every 12 months for 54 years. At 0.39pc, it is also one of the cheapest actively-managed funds available.

On a global scale, Scottish Mortgage is a popular choice. The largest investment trust at £9.7bn, it invests in companies that it believes are making significant changes for the future. Technology is a big part of this, with car-maker Tesla and online retailer Amazon its largest holdings. At 0.37pc, it is competitively priced.

For more cautious investors, RIT Capital Partners is an investment trust originally set up to manage some of the Rothschild family's money. It tends to focus on wealth preservation and includes investments in areas such as property and gold, as well as currencies. It charges 0.68pc but there is also a performance fee, which means it will cost more for achieving certain yearly targets.

Ethical investing

If starting an Isa for the first time, you may want to ensure your money goes into a vehicle that is going to change the world for the better.

We have an ethical 10 list that has been set up specifically for this. It includes passive and actively managed funds, and tackles a range of issues from gender equality to climate change and social housing.

Top picks include the Liontrust Sustainable Future UK Growth, Baillie Gifford Positive Change and Rathbone Ethical Bond for climate change, the Lyxor Global Gender Equality ETF for equal pay and the Civitas Social Housing investment trust for social housing.